



GST IMPLEMENTATION VS. TRADITIONAL INDIRECT TAX SYSTEMS: A COMPARATIVE EVALUATION OF ADMINISTRATIVE CHALLENGES

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ABSTRACT

GST has made significant progress in Indian taxation system. Globally, the Goods and Services Tax (GST) indirect tax system is gaining traction, with more than 160 countries having implemented it as of April 1, 2015. Malaysia is the newest country to have done so. The GST was conceived in 2004 by the task force on the fiscal Responsibility and Budget Management Act of 2003 (Kelker Committee) to replace the federal and state indirect tax systems. According to the Kelker Committee, a nationwide GST reform that taxes almost all goods and services consumed in the economy would be capable of establishing a common market, broadening the tax base, increasing the revenue productivity of domestic indirect taxes, and improving welfare through efficient resource allocation. The GST is intended to be a dual system (as is the case in Canada), with the Union and State governments levying and collecting taxes separately. The proposed GST is a consumption-based tax, which means that only final consumption of products is evaluated. GST is a unified tax on goods and services that allows for set-offs across the supply chain. This paper examined the proposed GST framework and current taxation system, first identifying the proposed GST and current taxation structure, then comparing the proposed GST framework and current taxation system, and concluding with a brief discussion of the proposed GST framework and current taxation system's impact on employment and various sectors. However, the researcher made notice of previous investigations. The Indian government has designated April 1, 2016 as the date for GST rollout.

KEYWORDS: GST, Service Tax, VAT, Taxation System.

INTRODUCTION

Goods And Services Taxation (GST)

Goods and Services Taxation (GST) in India is a comprehensive and transformative indirect tax system that was introduced on July 1, 2017. It marked a significant shift from the earlier complex and fragmented tax regime to a unified and simplified tax structure. GST is designed to subsume a variety of indirect taxes at the central and state levels, including excise duties, service tax, value-added tax (VAT), and more.

Under GST, the country is divided into two tax jurisdictions: the Central GST (CGST) levied by the central government and the State GST (SGST) levied by individual state governments. Additionally, there is an Integrated GST (IGST) applicable to interstate transactions. GST aims to eliminate the cascading effect of taxes, where taxes were levied on taxes, leading to higher prices for consumers and complex compliance for businesses.

One of the key features of GST is its online, technology-driven system for tax filing and compliance. Businesses are required to register under GST, file regular returns, and maintain detailed records of transactions. The GST Network (GSTN) serves as the backbone of this digital platform, ensuring smooth and transparent tax administration.

GST has simplified the taxation process, reduced tax evasion, and expanded the tax base. It has also facilitated the ease of doing business by enabling businesses to claim input tax credits, thereby reducing the tax burden on the end consumer. However, the GST implementation journey in India has been marked by its share of challenges, including initial teething problems, changes in tax rates, and compliance issues.

Over the years, GST rates have been adjusted to fit different categories of goods and services, aiming to strike a balance between revenue collection and inflation control. GST has had a profound impact on various sectors of the economy, with industries such as logistics, e-commerce, and manufacturing benefiting from a more standardized tax structure.

In conclusion, GST has emerged as a transformative tax reform in India, unifying the country into a single market and simplifying the taxation system. While it has faced challenges, it continues to evolve with refinements to address concerns and streamline operations. The long-term success of GST lies in its ability to boost economic growth, increase compliance, and ensure equitable taxation for businesses and consumers alike.

India's Indirect Tax

India's indirect tax system, prior to the introduction of Goods and Services Tax (GST) in 2017, was characterized by a complex and multi-tiered structure. This system encompassed a variety of indirect taxes at both the central and state levels, leading to a fragmented tax landscape. Some of the major indirect taxes in India before GST included:

- Central Excise Duty: Levied on the manufacture of goods within the

country, this tax was primarily collected by the central government. It applied to a wide range of products, including manufactured goods and certain commodities.

- Service Tax: Service Tax was imposed on the provision of various services and collected by the central government. It covered a broad spectrum of services, from hospitality and transportation to professional and financial services.
- Value-Added Tax (VAT): VAT was a state-level tax levied on the sale of goods within a state. Each state had its own VAT regulations and rates, resulting in non-uniformity across the country.
- Central Sales Tax (CST): CST was a central tax imposed on the sale of goods in inter-state transactions. It was collected by the central government but shared with the originating state.
- Customs Duty: Customs duty was imposed on the import and export of goods. It was collected by the central government and aimed at regulating trade and protecting domestic industries.
- Entry Tax and Octroi: State governments imposed entry taxes and octroi on the entry of goods into local areas. These taxes were seen as barriers to the free movement of goods within the country.

The introduction of GST in July 2017 marked a significant overhaul of India's indirect tax system. GST aimed to simplify the taxation structure by subsuming many of these taxes into a unified tax framework. It replaced central excise duty, service tax, VAT, CST, and other indirect taxes with a single, nationwide tax on the supply of goods and services. Under GST, the country was divided into two tax jurisdictions: the Central GST (CGST) levied by the central government and the State GST (SGST) levied by individual state governments. Additionally, there was an Integrated GST (IGST) applicable to interstate transactions. GST has streamlined tax administration, reduced the cascading effect of taxes, and facilitated ease of doing business by enabling businesses to claim input tax credits. It has also brought greater transparency and accountability to the taxation system through its online, technology-driven platform. In conclusion, India's indirect tax system has undergone a significant transformation with the introduction of GST. While it has faced implementation challenges and required adjustments over time, GST represents a major step toward creating a unified, simplified, and transparent tax structure in India.

OBJECTIVES OF THE STUDY

1. To identify the proposed GST system as well as the current taxation status.
2. To distinguish between the planned GST scheme and current taxation.

LITERATURE REVIEW

According to Madapana et al. (2016), the concept of Goods and Services Tax (GST) was introduced in India several years ago. The implementation of the project is currently ongoing, and with the advent of the new government, there is optimism for a prompt evaluation and subsequent implementation of the project in practical settings. The new administration expresses support for the implementation of the Goods and Services Tax (GST), a stance that can be

substantiated by the findings presented in this scholarly article, which highlight the numerous beneficial consequences associated with the adoption of the GST framework. In summary, it can be asserted that the implementation of the Goods and Services Tax (GST) in India will result in a tax system that is characterised by reduced complexity and enhanced efficiency. The new government has taken action by presenting a bill in the Lok Sabha. The aforementioned measure has received the endorsement of the Lower House of parliament, namely the Lok Sabha. Currently, the measure is awaiting consideration in the Upper House, known as the Rajya Sabha, where the ruling government lacks a definitive majority. Consequently, the government is dependent on the cooperation of opposition parties in order to secure the passage of the bill. It is imperative for the government to acknowledge the necessity of comprehensive development of Information Technology/Infrastructure across India in order to ensure the seamless functioning of the Goods and Services Tax (GST) system. The implementation of the Goods and Services Tax (GST) should involve the collaboration and cooperation of the central government with the respective state governments. Furthermore, it is imperative to ensure that every item is included within the scope of the Goods and Services Tax (GST) to prevent the failure of its fundamental objective. There are several factions that are expressing opposition against the planned Goods and Services Tax (GST) due to specific objections. However, they are also open to the possibility of supporting its passage provided that certain adjustments are made. It is advisable to engage in comprehensive deliberation and address the aforementioned problems in order to establish a robust Goods and Services Tax (GST) framework.

According to the findings of Nurulhasni Shaari et al. (2015), the implementation of the Goods and Services Tax (GST) in Malaysia in April 2015 has sparked significant discussion among the Malaysian population. The adoption of the Goods and Services Tax (GST) is perceived as a strategic strategy aimed at augmenting the country's income streams. The acquisition of greater government funds is directly correlated with the accrual of increased benefits for nations. Therefore, in order to achieve this goal, it is imperative to obtain the collaboration and dedication of all stakeholders involved, including scholars, professionals, and students as consumers. This is due to the fact that possessing a comprehensive comprehension of this notion might yield positive outcomes for improved governance. The student population and younger generation are indeed integral components and valuable resources inside a nation, poised to assume leadership roles in the future. The national development programme will be persistently executed in order to attain the objectives outlined in Vision2020. This collective is among the elements that contribute to the advancement and growth of the nation. The attainment of cooperation can be facilitated by the cultivation of awareness and comprehension regarding one's responsibilities. In order to enhance comprehension of the overarching principles of the Goods and Services Tax (GST), it is imperative to furnish individuals with sufficient and pertinent foundational knowledge. This can be achieved through the organisation of seminars, talks, training sessions, courses, and forums, which serve to augment awareness and understanding while also ensuring compliance with regulatory requirements. Within the framework of this tax system, it is imperative for the accountable entity to prioritise and underscore the dissemination of information to the general populace, particularly students, in order to enhance their comprehension of the ongoing advancements in the tax system. Hence, it is imperative to consider certain factors, such as the precise definition of the terminologies employed, the extent of the implementation of the Goods and Services Tax (GST), a comprehensive enumeration of the taxable goods and services, and, most significantly, ensuring that compliance with the rules and regulations is conducted in a fair and transparent manner, thereby alleviating any undue burden on the end users resulting from the implemented reforms.

According to the findings of a study conducted by Nor Hafizah Abd Mansor et al. (2015), it was determined that the implementation of the Goods and Services Tax (GST) differs significantly across different countries, despite its adoption by more than 100 nations worldwide. Nevertheless, notwithstanding these disparities, nearly all nations have implemented measures to optimise the information technology (IT) components, including IT utilisation and IT administration, in order to facilitate the seamless functioning of the Goods and Services Tax (GST) system. In the Malaysian context, the government or the Royal Malaysian Customs Department (RMCD) employs many techniques to enhance the IT sophistication of enterprises. These strategies include the implementation of rules and regulations, allocation of budget provisions and financial support, development of computerised systems, and fostering vendor engagement. Moreover, the Goods and Services Tax (GST) has demonstrated its ability to generate a higher amount of tax revenue compared to the Sales and Services Tax (SST). According to a report by Sinar Harian (2015), an impressive sum of RM6 billion was collected within a span of less than three months since the implementation of GST. However, it is important to note that the Goods and Services Tax (GST) is currently in a transitional phase. As a result, there are several areas that require thorough examination and enhancement, particularly from the viewpoints of Information Technology (IT) and Information Systems (IS).

According to the research conducted by Sim Choon Ling et al. (2015), the results revealed a statistically significant correlation ($t = 0.008$) and a moderate negative linear association ($r = -0.476$) between price and GST compliance. The results of

the regression analysis indicate that there is a significant negative correlation between price and GST compliance ($\beta = -0.159$, $t = -2.688$, $p < 0.05$). In conclusion, the research findings indicate that the general population demonstrates a level of sensitivity to the post-tax cost of products and services. This sensitivity has been found to have a substantial and adverse effect on compliance with products and Services Tax (GST) regulations. As a result, hypothesis H1 is supported by the data and aligns with prior studies conducted on this topic. The research findings indicate that government subsidies exhibit a value of 0.000 and a Pearson's r of 0.286. This suggests that there is a statistically meaningful, albeit modest, positive correlation between government subsidies and GST compliance. Similarly, according to the regression analysis conducted, it was shown that government subsidies ($\beta = 0.201$, $t = 4.627$, $p < 0.05$) exhibited statistical significance and a positive correlation with GST compliance. In summary, the research findings suggest that individuals express their endorsement for the distribution of government subsidies, which in turn exerts a substantial and favourable influence on compliance with the Goods and Services Tax (GST). In conclusion, hypothesis H2 has been accepted and is in alignment with prior research findings. Finally, the results of the regression analysis indicate that there is a statistically significant relationship between income inequality and GST compliance ($t = 0.000$, $p < 0.05$). The Pearson's correlation coefficient of -0.544 suggests a moderate negative association between these variables. Therefore, it can be concluded that there is evidence of a negative relationship between income inequality and GST compliance. Furthermore, the results of the regression analysis indicated a significant and negative relationship between income inequality and GST compliance ($\beta = -0.407$, $t = -6.919$, $p < 0.05$). This suggests that income disparity has a noteworthy and adverse effect on the level of GST compliance. In conclusion, the hypothesis H3 is accepted and aligns with the findings of earlier research. A research investigation was undertaken to analyse the many aspects that exert an influence on compliance with Goods and Services Tax (GST) regulations. The findings of this study demonstrate that all of the variables examined exhibit a statistically significant link with GST compliance. This suggests that government initiatives aimed at increasing public compliance with the new indirect tax have the potential to be effective. Furthermore, this research will enable policymakers to gain a deeper understanding of public sentiment, so facilitating the development of a tax system that promotes tax compliance in the future. However, it is imperative for the administration to adopt essential measures, such as enhancing openness and transparency, in order to garner support from the general populace. A potential future recommendation in the field of study is for academics to utilise hierarchical regression analysis to investigate the potential moderating effect of respondents' demographic characteristics on the public's acceptance and compliance with tax. The computed R^2 indicates that only 35.5 percent of the variation in the dependent variable can be accounted for by the selected independent variables. This suggests that there may be additional factors that influence GST compliance, such as social norms, taxpayer moral values, knowledge of taxation, trust in the political and legal system, and the complexity of the tax system, among others. In general, a revision of the model may result in an improved overall fit of the model. Furthermore, the authors suggest that it would be beneficial to replicate this study in a broader and more diverse population. Rather than solely collecting data from Penang state, it is advised that this survey be expanded to encompass the entirety of Malaysia in order to acquire conclusions that are more representative and applicable on a larger scale. Ultimately, the general sentiment towards tax payment is not one of enjoyment; yet, it is imperative to recognise that taxes play a crucial role in financing the provision of public goods and services. In conclusion, it is imperative for policy makers to acknowledge the importance of tax compliance literature, since tax non-compliance continues to be a pervasive global phenomena that undermines the integrity of tax systems.

The individual in question is Girish Garg. In the year 2014, The implementation of the Goods and Services Tax (GST) is a significant and rational stride towards achieving a comprehensive reform of the indirect tax system in our nation, marking a notable milestone since our country's independence. The Goods and Services Tax (GST) is applicable to all transactions involving the supply of goods, the provision of services, or a mix of both. The implementation of the Goods and Services Tax (GST) would have an influence on all sectors of the economy, including industry, businesses (including government departments), and the service sector. The implementation of the Goods and Services Tax (GST) would have a direct impact on several sectors of the economy, including large, medium, and small-scale enterprises, intermediaries, importers, exporters, merchants, professionals, and consumers. The Goods and Service Tax (GST) in India is anticipated to effectively integrate the economies of several states and contribute to general economic growth. The implementation of the Goods and Services Tax (GST) in India aims to establish a consolidated and integrated market, thereby bolstering the strength of the economy. According to experts, the implementation of the Goods and Services Tax (GST) is expected to enhance tax revenue collection and foster economic growth in India. This may be attributed to the elimination of tax barriers across states and the establishment of a standardised tax rate, which promotes integration across the country. The Goods and Services Tax (GST) system aims to provide a fair distribution of the taxation burden between the manufacturing and services sectors. This will be accomplished by implementing a lower tax rate, which will be achieved by expanding the tax base and reducing the number of exemptions.

According to the findings of Jaspreet Kaur (2016), it may be inferred that the recent tax structure reform in India represents a significant and unprecedented transformation. Certain commodities are projected to have a decline in prices, while conversely, the prices of other goods and services are anticipated to increase. In addition to the risk of inflation, states may encounter a decrease in their fiscal resources. However, on the whole, it is anticipated that this shift will be quite beneficial.

In a study conducted by Sakhamuraj (2017), The transition to the Goods and Services Tax (GST) regime is expected to yield several advantages for the economy. The Goods and Services Tax (GST) represents a significant advancement over the old framework of Value Added Tax (VAT) and fragmented services tax, rather than being a mere combination of the two. This transition may be regarded as a well-founded progression in the tax system. Implementing a uniform rate will promote simplicity and transparency by treating all goods and services as equal, without granting preferential treatment to certain "special" commodities and/or services. If implemented correctly, a nation-wide uniform tax rate can serve as an effective tool for managing fiscal policy. It can be further inferred that the implementation of the Goods and Services Tax (GST) has yielded beneficial outcomes across diverse sectors and industries. The implementation of the Goods and Services Tax (GST) in the Indian economy is imminent, and it is imperative that we adequately prepare ourselves to effectively manage its impact. The global consensus on taxation has led to widespread acceptance of this system, with India poised to adopt it as well. Despite the presence of several obstacles hindering the implementation and effectiveness of systems in India, whether they are of a political nature or related to economic growth, it is evident that further research is required to address these challenges. The successful implementation of the Goods and Services Tax (GST) necessitates the collective and concerted efforts of all relevant stakeholders, including both the central and state governments, industries, and consumers. Therefore, it is imperative to undertake certain measures in order to effectively execute the tax implementation. The implementation of the Goods and Services Tax (GST) in India will effectively address the economic distortions arising from the current intricate tax framework, while simultaneously fostering the growth of a unified national market.

GOODS AND SERVICES TAXATION (GST) VS INDIA'S INDIRECT TAX

India's previous indirect tax system was a convoluted web of multiple taxes at both the central and state levels. This system included Central Excise Duty, Service Tax, Value-Added Tax (VAT), Central Sales Tax (CST), Customs Duty, and various state-specific levies like Entry Tax and Octroi. The complexity of this tax structure led to tax cascading, where taxes were imposed on top of other taxes, resulting in higher prices for consumers and making Indian products less competitive globally. Interstate trade faced administrative complexities due to CST, and diverse tax rates across states created compliance challenges for businesses operating nationwide. The compliance process was cumbersome, involving extensive paperwork and manual processes.

In contrast, the introduction of Goods and Services Tax (GST) on July 1, 2017, marked a profound transformation in India's indirect tax landscape. GST replaced the array of previous indirect taxes with a single, comprehensive tax on the supply of goods and services. This dual taxation system included Central GST (CGST) levied by the central government and State GST (SGST) imposed by state governments. The most significant benefit of GST was the provision of Input Tax Credit (ITC), allowing businesses to claim credit for the GST paid on inputs and services, thus reducing the overall tax burden. GST also streamlined compliance through an online, technology-driven platform, the GST Network (GSTN), simplifying tax filings, reducing paperwork, and enhancing transparency. Furthermore, GST aimed to standardize tax rates across the country, creating a more uniform tax structure. While challenges accompanied its implementation, GST has significantly simplified tax administration, eliminated tax cascading, and promoted economic growth by fostering a more business-friendly tax environment, contributing to India's overall economic development and competitiveness.

DATA ANALYSIS

This research study relies on data gathered and analysed from secondary sources, such as newspapers, books, websites, and academic research.

Tax	Levy by	Levied on	Covered by
Central excise	Central	Manufacturer	Yes
Service tax	Central	Providing Services	Yes
Custom	Central	Import	No
CVD under custom (Countervailing duty)	Central	Additional import duty (Compensating excise)	Yes
SAD under custom (Special additional duty)	Central	Additional import duty (Compensating excise)	Yes
CST	Central	Inter-state sales	Yes
VAT	State	Sales within a state	Yes

Table 1 : Indirect Tax System in India

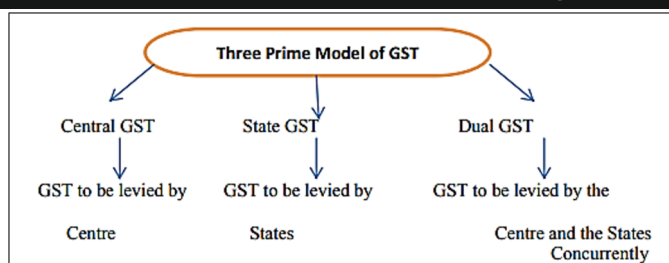


Table 1 : The Dual GST Model

ISSUES	PRE GST REGIME	GST REGIME
Transparent Tax Administration	Presently, tax is levied at two stages in broad manner i.e. 1. When product moves out of factory. 2. At retail outlet.	GST is to be levied only at final destination of consumption and not at various points. This brings more transparency and corruption free tax administration.
Tax rates	There are separate rates. For e.g. Excise 12.36 % and Service Tax 14%.	There will be one CGST rate and a uniform rate of SGST across all states.
Tax burden	Under present scenario, tax burden on tax payer is high.	Under this, tax burden is expected to reduce since all taxes are integrated which make it possible the burden to be split equitably between manufacturing and services
Cost Burden on Consumers	Due to presence of cascading effect, certain taxes become part of cost.	As GST mechanism removes such effect by providing credit, cost burden is reduced.
Concurrent Power	At present, there is no such power to both Centre and State on same subject tax matter	Both Centre and State are vested with the power to make law on GST by virtue of proposed Article 246A of the Constitution
Compliance	Tax compliance is complex because of multiplicity of laws and their provisions to be followed.	Tax compliance would be easier as only one law subsuming other taxes need to be followed
Cascading effect	This Problem arises because credit of CST and many other taxes not allowed.	This situation will not arise as CST concept is being eliminated with introduction of IGST.
Broad scheme	There are separate laws for separate levy. For e.g. Central Excise Act, 1944, respective State VAT laws.	There will be only one such law because GST shall subsume various taxes as specified above.

Table 2 : Issues in GST

CONCLUSION

The government is making attempts to lessen indirect taxes' beneficial cascading effect, which benefits both the government and the sellers. A streamlined indirect tax system will make it simple for manufacturers, wholesalers, and retailers to recoup input taxes in the form of tax credits. Economic output is expected to improve by 2% as a result of the implementation of the GST. The Goods and Services Tax (GST) will increase tax transparency and extend the tax base. Under the GST, all federal and state taxes on goods and services will be removed, creating more level playing ground for the manufacturing industry. As a result of decreasing prices for goods and services, the tax to GDP ratio will increase. The framework and regulations for conducting business in India would be greatly streamlined. The tax on manufactured goods will decrease from 24-25% to 20-21%. Retail sales will now be subject to a 20% tax, up from the current 12.5%. The countervailing duty on imported items would increase from 16 to 20 percent. For manufacturers and service providers, each state will require a different registration process.

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